

Market Commentary for October 2008

Economic Slowdown Persists

The Treasury and Federal Reserve enacted several programs in order to promote more liquidity and confidence in the battered financial system. These actions are beginning to have an impact and there are some signs of improvement in the credit markets, most notably the drop in London Interbank Offered Rate (LIBOR) rates. Yet, amid a global slowdown and reduced spending, the U.S. economy contracted 0.3 percent in the third quarter. Continued weakness is expected through 2009 as the job market weakens and consumer confidence deteriorates. However, the programs implemented by the Treasury and Fed should help to soften the blow to the economy.

Increasingly worried about the labor market, consumers were reportedly more pessimistic in October as unemployment swelled to 6.5 percent in October from 6.1 percent the previous month, the highest level in 14 years. This surge in unemployment has prompted economists to forecast continued deterioration in the labor market. For that reason, the Conference Board index of consumer confidence scored a new record low of 38, down from 61.4 in September. Economists believe this decline in confidence will result in a steep drop in consumer spending in the fourth quarter. It is evident that the dismal mood in this economic climate has encouraged consumers to start saving and to hold off on purchases. In fact the savings rate surged 1.3 percent and spending declined 0.3 percent in September. The reduced availability of credit may further hinder spending, however it is expected that the government will introduce another stimulus package to boost consumption.

The malaise in the housing market also continues to be a significant drag on the economy. Home sales for both new and existing homes staged a modest increase of 2.7 percent and 5.5 percent respectively in September. These increases are

mostly attributed to distressed home sales. Moreover, the S&P/Case-Shiller house price index posted steep declines in both its 10-city and 20-city composites, dropping 17.7 percent and 16.6 percent respectively. Lower home prices may make homes more affordable and attractive to potential buyers, but enthusiasm for the housing market remains tempered because of elevated inventories, a dire employment situation, and tight credit markets.

Consumers are not the only ones struggling with tight credit conditions. Businesses are also reporting substantial declines in orders as a result of stricter lending standards. Consequently, the Institute for Supply Management's (ISM) manufacturing index reported a drop to 38.9 from 43.5 as manufacturers slashed orders. This level indicates a contraction in the manufacturing sector that is consistent with a severe recession. Additionally, retail sales declined 1.2 percent in September, the largest drop in 3 years. Much of this decrease occurred in the automobile sector due largely to the poor credit environment and low consumer confidence. In fact, the auto industry is in a recession as U.S. auto makers posted the lowest level of auto sales in 17 years.

Concerned about economic growth and the availability of credit to consumers and businesses, the Federal Open Market Committee (FOMC) lowered rates twice during October to 1.0 percent. According to the FOMC statement released from the October 29th meeting, the Fed stated, "Recent policy actions, including today's rate reduction, coordinated interest-rate cuts by central banks, extraordinary liquidity measures, and official steps to strengthen financial systems, should help over time to improve credit conditions and promote a return to moderate economic growth." Economists believe that the Fed is not finished cutting rates since inflationary risks have abated with the concurrent drop in energy and commodity prices.

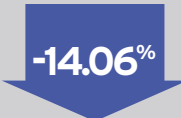
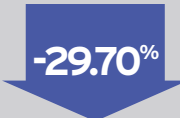
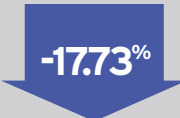
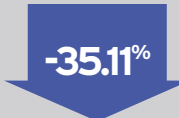
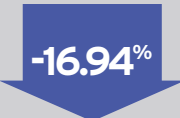

Sector Review

U.S. Treasuries: The Treasury market continued to rally in October, specifically in the shorter maturities, as there was a continued flight to quality. The 10-year note yield inched upwards to a 3.96 percent yield from a 3.82 percent yield the prior month. The two-year note yield decreased to a 1.56 percent yield from a 1.96 percent yield while the three-month Treasury bill saw yields plunge to 0.37 percent from 0.90 percent as investors raced to the most risk averse product available. (Rates and prices maintain an inverse relationship. Prices decrease as yields increase).

Commercial Paper: Financing costs for commercial paper experienced a great deal of volatility throughout the month as financing rates fluctuated while banks and investors had to work their way through learning the advantages of all the newly available Treasury and Federal Reserve funding entities. As more was learned and investors began to grow more comfortable with the overall environment, financing levels tracked downward towards month-end. One-month, top-tier, higher quality asset backed commercial paper (ABCP) names traded between 2.50 percent and 2.97 percent and three-month paper traded between 2.75 percent and 3.25 percent.

U.S. Government Agencies: Agencies issued healthy amounts of discount notes throughout October as investor demand was geared towards shorter-maturity securities. Yields had become elevated mid-month as funding levels were higher than usual. These levels diminished towards the end of the month after the Fed eased rates and investors continued gaining confidence in agencies. Agency yields at month-end on three-month paper yielded near 1.70 percent, six-month paper yielded 2.43 percent, and 12-month paper yielded 2.41 percent.

Strategy: The Fed slashed its target rate to 1.00 percent as a result of continued weakness in the markets and banking system. Their efforts continue to be focused on the creation of vehicles to help the banking system remain as orderly as possible which also included helping distressed entities find a willing buyer. During this difficult period in the financial markets, our portfolio focus for short-term accounts continues to be defensive with an emphasis on maintaining short maturities and cycling more cash towards government guaranteed bonds.

DJIA		NASDAQ		S&P 500	
 -14.06%	 -29.70%	 -17.73%	 -35.11%	 -16.94%	 -34.02%
Month	Year-to-Date	Month	Year-to-Date	Month	Year-to-Date

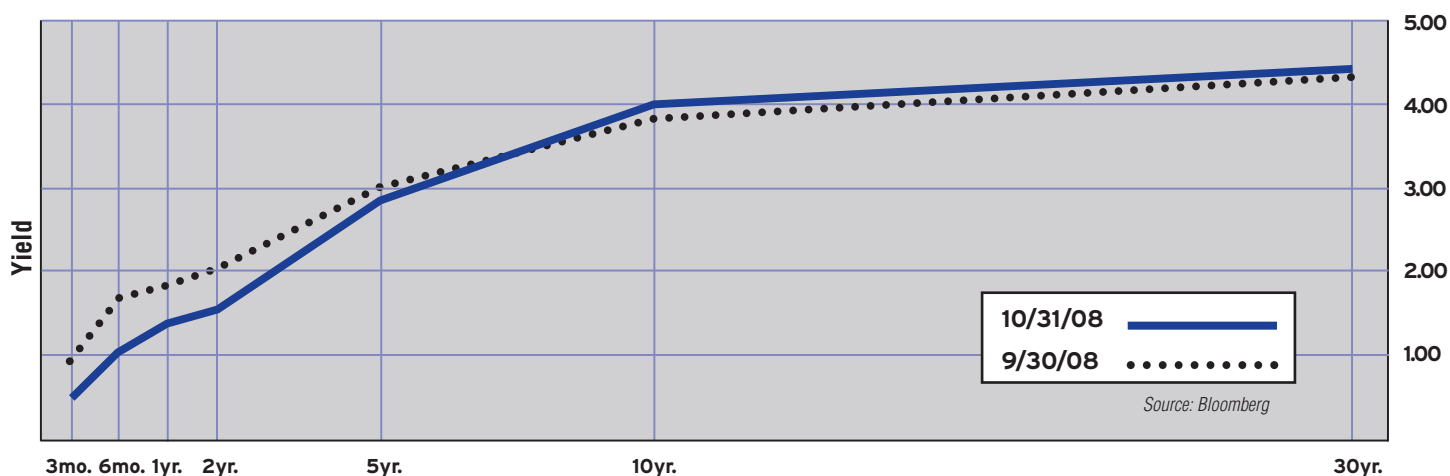
The opinions expressed above are those of MBIA Asset Management and are subject to change without notice. All statistics represent month-end figures unless otherwise noted.

Market Summary for October 2008

Monthly Market Summary - Week-ending Rates and Yields

	10/03	10/10	10/17	10/24	10/31	4th QTR AVG	3rd QTR AVG	2nd QTR AVG	1st QTR AVG
Overnight Rates									
Effective Fed Funds	1.10	0.79	0.60	0.95	0.22	0.73	1.90	2.07	3.19
Repurchase Agreements	0.10	0.25	0.10	.090	0.10	0.29	1.89	2.02	2.67
Discount Rates									
1 Month Treasury Bill	0.17	0.19	0.12	0.30	0.20	0.20	1.33	1.42	2.00
1 Month Agency Disc.	1.10	1.25	1.20	1.13	0.59	1.05	2.21	2.06	2.80
1 Month Com'l Paper	3.84	4.30	3.46	2.64	2.02	3.25	2.49	2.45	3.18
3 Month Treasury Bill	0.51	0.33	0.76	0.82	0.44	0.57	1.49	1.61	2.00
3 Month Agency Disc.	2.47	1.61	2.08	2.24	1.70	2.02	2.42	2.16	2.77
3 Month Com'l Paper	4.00	4.47	4.10	3.35	2.75	3.73	2.81	2.67	3.11
6 Month Treasury Bill	0.97	0.71	1.17	1.30	0.89	1.01	1.78	1.82	2.07
6 Month Agency Disc.	2.71	1.97	2.83	2.91	2.43	2.57	2.69	2.25	2.64
6 Month Com'l Paper	3.98	4.04	4.06	3.50	2.81	3.68	3.08	2.78	3.01
Yields									
1 Year Treasury	1.41	1.08	1.34	1.60	1.34	1.35	2.16	2.07	2.07
1 Year Agency	3.00	2.67	3.14	2.94	2.86	2.92	2.91	2.68	2.58
2 Year Treasury	1.59	1.64	1.62	1.52	1.57	1.59	2.40	2.40	1.97
2 Year Agency	2.79	2.96	3.21	3.06	3.24	3.05	3.22	3.03	2.60
5 Year Treasury	2.64	2.76	2.83	2.58	2.83	2.73	3.13	3.15	2.70
5 Year Agency	3.92	4.04	4.27	3.97	4.51	4.14	4.09	3.88	3.45

Historical Yield Curve



Key Economic Indicators

	For the Period	Date of Release	Expected	Actual	Prior
Unemployment Rate	October	11/07	6.3%	6.5%	6.1%
Consumer Price Index	September	10/16	5.0%	4.9%	5.4%
- Less Food and Energy	September	10/16	2.5%	2.5%	2.5%
Consumer Conf. (CB)	October	10/28	52.0	38.0	59.8
FOMC Rate Decision		10/29	1.00%	1.00%	1.50%
Gross Domestic Product	3QA	10/30	-0.5%	-0.3%	2.8%

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